

Message Text

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SUBJECT: REQUEST FOR PL-480 DEBT DEFERRAL

REF: STATE 138204

1. SUMMARY: DEBT DERERRAL OFFERS THE GOP THE OPPORTUNITY TO OBTAIN WHAT IS ESSENTIALLY A LOAN OF AN MUCH AS \$50 MILLION AT LESS THAT COMMERCIAL RATES AND WITH NO DRAWDOWN FROM CREDIT LINES. WE BELIEVE A REQUEST FOR DEFERRAL OF CY 1975-77 REPURCHASES SHOULD BE GRANTED IF THE ADVANTAGES TO POLAND ARE FULLY BALANCE BY COMPENSATING ADVANTAGES TO US INTERESTS. AMONG AREAS IN WHICH THE USG MIGHT SEEK COMPENSATING ADVANTAGES ARE:

A) US EXPORTS OF MACHINERY AND EQUIPMENT TO POLAND;
B) ACQUISITION OF PROPERTY IN POLAND BY USG;
C) PAYMENT OF ANNUITIES BY USG TO BENEFICIARIES IN POLAND;

D) JOINT FINANCING OF SCIENCE-AND-TECHNOLOGY PROGRAMS.
THIS MESSAGE SEEKS IN GENERAL TO DEFINE ISSUES AND CHOICES RATHER THAN TO RECOMMEND SPECIFIC COURSES OF
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ACTION OR NEGOTIATING POSITION. END SUMMARY.

2. FINANCIAL TERMS: CHOWANIEC OF MFA CONFIRMED TO US THAT THE POLISH REQUEST COVERS \$16.66 MILLION DUE IN EACH OF THE THREE YEARS 1975-77 AND IS NOT MEANT TO INCLUDE THE \$1.67 MILLION DUE IN 1977 AS 1/8 OF PAYMENT DEFERRED FROM 1973. THE TOTAL SUM INVOLVED IN THE POLISH REQUEST IS THUS \$49.98 MILLION. CHOWANIEC ALSO STATED THAT THE GOP SEEKS TERMS SIMILAR TO THOSE OF THE 1973 AGREEMENT, WHICH HE SAID COULD SERVE AS A MODEL. CHOWANIEC DID NOT INDICATE POLAND'S POSITION ON THE QUESTION OF THE PERIOD OF DEFERAL OR THE REPAYMENT SCHEDULE. SINCE THE EXPORT-IMPORT BANK HAS ABANDONED A SINGLE, FIXED INTEREST RATE, THIS GUIDE, USED FOR THE 1973 AGREEMENT, IS NO LONGER AVAILABLE. THE EMBASSY SUGGESTS THE DEPARTMENT CONSIDER CHARGING INTEREST ANNUALLY AT A RATE EQUAL TO THE AVERAGE ANNUAL FEDERAL RESERVE REDISCOUNT RATE, OR TO SOME OTHER RATE WHICH, ALTHOUGH LOWER THAN THE COMMERCIAL RATE, WOULD CHANGE WITH THE CHANGING COST OF MONEY.

3. US EXPORTS: THE PREVIOUS AGREEMENT OBLIGATED POLAND TO INCREASE ITS CASH PURCHASES OF US MACHINERY AND EQUIPMENT IN 1973 AND 1974 BY AN AMOUNT EQUAL TO THE AMOUNT DEFERRED. MEMORANDA OF THE NEGOTIATIONS HOW THAT THE FULFILLMENT OF THIS OBLIGATION WAS CITED BY THE US SIDE AS A CONDITION FOR THE CONSIDERATION OF FURTHER REQUESTS FOR DEFERRALS. OUR ESTIMATE IS THAT POLAND DID NOT MEET THIS OBLIGATION IN 1973. ACCORDING TO US TRADE FIGURES, ALL POLISH IMPORTS OF NON-ELECTRIC AND ELECTRIC MACHINERY AND EQUIPMENT FROM THE US, WHETHER PAID FOR IN CASH OR BY OTHER MEANS, IN 1973, ROSE BY ONLY \$11.4 MILLION OVER 1972, WHEREAS THE AMOUNT DEFERRED, LESS ADJUSTMENT FOR TRAVEL AND THE 10 PERCENT DEFERRED ANNUITY PAYMENTS, CAME TO ABOUT 10.7 MILLION. WE CANNOT TELL, OF COURSE, WHICH OF THESE IMPORTS WERE PAID FOR IN CASH. IT IS ALSO TRUE, HOWEVER, THAT GOODS PURCHASED BY POLAND IN 1973 MAY NOT BE SHIPPED UNTIL LATER YEARS AND WILL THEREFORE NOT APPEAR IN THE 1973 TRADE FIGURES. THE GOP MIGHT ALSO CONTEND, WITH SOME JUSTIFICATION, THAT FULFILLMENT OF THIS OBLIGATION OUGHT LIMITED OFFICIAL USE

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NOT BE TO JUDGED UNTIL THE END OF 1974. IN VIEW OF OUR GENERAL SATISFACTION WITH THE LEVEL OF US EXPORTS TO POLAND IN 1973 AND THUS FAR IN 1974, AND NOTING OUR INABILITY TO STATE WITH ASSURANCE THAT INCREMENTAL CASH PURCHASES OF US MACHINERY AND EQUIPMENT IN 1973 FAILED TO OCCUR, WE DO NOT BELIEVE THAT THE APPARENT POLISH SHORTFALL SHOULD BE REGARDED AS GROUNDS FOR REJECTING THE PRESENT REQUEST.

4. WE BELIEVE THAT A PROVISION LINKING DEFERRAL TO INCREASE CASH PURCHASES OF US MAHCINERY AND EQUIPMENT SHOULD BE INSERTED N ANY NEW AGREEMENT. SUCH A PROVISION GIVES THE DEFERRAL THE CHARACTER OF AN EXPORT CREDIT REATHAN THAN A GENERAL-PURPOSE LOAN. OUR DIFFICULTIES IN DETERMINING WHETHER THE OBLIGATION HAS BEEN FULFILLED IN THE PAST, HOWEVER, POINT UP THE NEED TO DEVELOP SOME SORT OF MONITORING PROCEDURE, WHICH MIGHT TAKE THE FORM OF PERIODIC REPORTS FROM THE GOP ON M&E PURCHASES, DOCUMENTED WITH COPIES OF INVOICES FROM US SUPPLIERS.

5. ACQUISITION OF PROPERTY: US-POLISH PL-480 AGREE-MENT REFER SPECIFICALLY TO THE RIGHT OF THE USG TO USE ZLOTYS FOR THE ACQUISITION OF PROPERTY IN POLAND. IN RECENT YEARS, HOWEVER, THE GOP HAS REFUSED TO PERMIT THE EMBASSY TO PURCHASE OR OBTAIN FREEHOLD LEASES ON MANY RESIDENTIAL PROPERTIES IN WARSAW, INSISTING INSTEAD ON SHORT-TERM LEASES WHICH BRING A HIGHER RATE OF RETURN. WE SHOULD USE THE LEVERAGE AFFORDED BY THE NEW DEFERRAL REQUEST TO OBTAIN A PLEDGE FROM THE GOP THAT THE USG WILL BE PERMITTED TO ACQUIRE, THROUGH PURCHASE OR 99-YEAR LEASE, 18 RESIDENTIAL UNITS, OR LAND SUITABLE FOR THE CONSTRUCTION OF HOUSING, FOR USE BY PERSONNEL ASSIGNED TO US DIPLOMATIC ESTABLISHMENT IN POLAND. IF THE DEPARTMENT PERCEIVES NO LEGAL OBJECTION, WE SHOULD ALSO ATTEMPT TO OBTAIN THE RIGHT TO PURCHASE OR LEASE FOR 99 YEARS THE NEW BUILDING WHICH WILL HOUSE THE AMERICAN SCHOOL OF WARSAW. ALTERNATIVELY, WE SHOULD USE THIS LEVERAGE TO OBTAIN A SUBSTANTIAL REDUCTION IN THE RENT ON THE SCHOOL BUILDING CHARGED BY THE POLISH OWNER (PUMA, I.E., THE ENTERPRISE FOR HOUSING AND ADMINISTRA-TIVE SERVICES TO DIPLOMATIC MISSION, A BODY CONTROLLED LIMITED OFFICIAL USE

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BY THE POLISH MINISTRY OF FOREIGN AFFAIRS). (NOTE: NEGOTIATIONS ON THE FINAL RENTAL CHARGE FOR THE NEW SCHOOL ARE NOT YET COMPLETED. PUMA HAS ASKED A MONTHLY RENT FOR THE BUILDING AND GROUNDS OF 129,780 ZLOTYS, EQUIVALENT TO \$6,515 AT THE RATE OF 19.92 ZLOTYS TO THE DOLLAR. THE MONTHSLY RENT PAID TO PUMA FOR THE PRESENT SCHOOL IS 45,720 ZLOTYS, OR \$2,295 AT THE 19.92 RATE. PUMA IS AKSING A HIGHER RENT PER SQUARE METER ON THE NEW BUILDING THAN IT CHARGES ON THE PRESENT BUILDING. DETAILS WILL FOLLOW IN A SEPARATE MESSAGE. END NOTE)

6. ANNUITANTS: UNDER THE PRESENT SYSTEM, 10 PERCENT OF ANNUITANTS' CHECKS ARE COVERED BY DRAWDOWNS OF FRONT-END ZLOTYS AT 19.92 ZLOTYS TO THE DOLLAR, AND 90 PERCENT OF PAYMENTS TO ANNUITANTS ARE DRAWN DOWN AT THE RATE OF 60 ZLOTYS

TO ONE DOLLAR FROM ZLOTYS SCHEDULED FOR REPURCHASE IN 1988 AND SUBSEQUENT YEARS. SINCE THE ZLOTYS WERE DEPOSITED AT 24-1, THESE "MIDDLE" DISBURSALS GIVE US A DISCOUNTED PRESENT VALUE OF FORTH CENTS ON THE DOLLAR (24/60). FIGUREING THE VALUE OF MONEY AT SEVEN PERCENT ANNUALLY, THE DISCOUNTED PRESENT VALUE OF A 1988 DOLLAR IS \$0.3880. IT WOULD THEREFORE APPEAR TO BE IN OUR INTEREST TO SHIFT PAYMENT OF ANNUITIES TO THE FRONT END OR TO DOLLARS. IN EITHER CASE, THE BENEFIT TO THE GOP WOULD BE AN INFLOW OF CURRENT, RATHER THAN FUTURE, DOLLARS, WITH ACONCOMITANT IMPROVEMENT IN THE POLISH BALANCE OF PAYMENTS. IN EXCHANGE FOR THIS BENEFIT, WE SHOULD INSIST THAT THE POLEWS UNDERTAKE TO MAINTAIN CONVERSION OF ANNUITANTS' CHECKS INTO ZLOTYS AT THE PKO REPURCHASE "RELATIONSHIP" (NOW 60-1) FOR 80 PERCENT OF THE VALUE OF THE CHEKC, AND INTO PKO DOLLAR-DENOMINATED COUPONS, FOR USE IN HARD-CURRENCY SHOPS, FOR 20 PERCENT OF THE VALUE OF THE CHECK.

7. PAYMENT OF ANNUITIES WITH DOLLARS WOULD REPRESENT A CLEAR BALANCE-OF-PAYMENTS LOSS TO THE USG. PAYMENT WITH FRONT-END ZLOTYS, DEDUCTED FROM THE AMOUNT TO BE DEFERRED, WOULD REDUCE THE SIZE OF THE DEFERRAL BY OVER 40 PERCENT IN 1975 AND, WE EXPECT, BY INCREASINGLY HIGHER PERCENTAGES IN 1976 AND 1977. A THIRD POSSIBILITY IS TO COVER MORE THAN THE PRESENT 10 PERCENT OF PAYMENTS FROM THE LIMITED OFFICIAL USE

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FRONT END, BUT TO CONTINUE TO USE "MIDDLE" ZLOTYS AT 60-1 FOR THE BULK OF PAYMENTS. IT SHOULD BE NOTED THAT IN ANY CASE EXPENDITURES FORWARD FROM 1988 FOR ANNUITANTS AND BACKWARD FROM 1994 FOR OTHER PURPOSES WILL FORCE A CHANGE IN THE PRESENT ANNUITANT-FUNDING MECHAINS IN THREE OR FOUR YEARS.

8. JOINT FINANCING OF SCIENCE-AND-TECHNOLOGY PROGRAMS: THE POLISH REQUEST FOR DEFERRAL MAY OFFER AN OPPORTUNITY FOR NEW APPROACHES TO THE QUESTION OF THE JOINT FINANCING OF S&T PROGRAMS IN POLAND. FOR EXAMPLE, ZLOTY SCHEDULED FOR REPURCHASE MIGHT, UNDER THE DEFERRAL AGREEMENT, BE PLACED IN AN INTEREST-BEARING FUND, WITH INTEREST TO BE PAID BY THE GOP, AND MADE AVAILABLE FOR FINANCING S&T PROGRAMS AFTER FY 1978 UNDER A JOINT-BOARD MECHANISM. THE PRINCIPAL WOULD BE SUBJECT TO REPURCHASE UNDER THE TERMS OF THE DEFERRAL AGREEMENT.

9. REGARDLES OF WHETHER JOINT FINANCING CAN USEFULLY BE LINKED TO THE DEFERRAL QUESTION, WE RECOMMEND MAINTAINING THE TRAVEL FUND ALONG THE LINES SET FORTH IN

THE STOESSEL-KRZAK AGREEMENTS.

10. ACTION REQUESTED: THE EMBASSY WOULD APPRECIATE THE DEPARTMENT'S EARLY REACTION TO THESE SUGGESTIONS AND RECOMMENDATIONS. THE POLES HAVE INDICATED THEIR DESIRE TO CONCLUDE THE AGREEMENT IN OCTOBER.
DAVIES

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